FitchRatings

FITCH DOWNGRADES BURLINGTON, VT'S AIRPORT REVS TO 'BBB'; REVISES OUTLOOK TO NEGATIVE

Fitch Ratings-New York-23 March 2011: Fitch Ratings downgrades to 'BBB' from 'BBB+' approximately $37 million of outstanding city of Burlington, VT's airport revenue bonds. The Rating Outlook for all airport bonds is revised to Negative from Stable.

RATIONALE:

The Downgrade and Negative Outlook reflect Burlington International Airport's (the airport) weakened financial profile and lack of management response that led to rate covenant violations in fiscal 2009 and fiscal 2010 with coverage of 1.10 times (x) and 1.18x respectively. Enplanements were 6.7% and 8.1% lower in calendar years 2009 and 2010 respectively (2.4% and -8.9% on a fiscal year basis). The tepid deterioration in financial metrics highlights the airport's heavy reliance on volume dependent passenger facility charges (PFC) and parking revenue to meet financial obligations leaving it vulnerable to changes in passenger throughput. The airport subsidizes approximately 40% of carrier costs. While this policy is generally successful at the airport, Fitch views the airport's reluctance to pass costs to carriers limits its ability to generate less volatile contractual revenues and build financial flexibility. While Fitch believes that the airport does have some degree of economic rate making flexibility on landing fees and terminal charges, it is Fitch's view that the airport continues to subsidize airline costs to prevent service reductions. The airport anticipates additional borrowing this year, and while a portion of the proceeds will be used to restore required reserves, management is creating liquidity through additional leverage. Should recovery fall short of airport expectations and current financial flexibility and revenues remain at current levels, further rating action would be taken.

Fitch does recognize that the airport has taken several actions to rectify the covenant violations and with the recommendations of consultants and new management in financial divisions, plans are in place to monitor performance on a monthly basis. The airport expects to implement a reconfigured terminal concession program and has raised terminal and landing rates and charges. The airport is projecting a debt service coverage of 1.66x in 2011, including rolling coverage of 25%.

The 'BBB' rating reflects the airport's diverse mix of airline carriers with no one airline serving more 29% of passenger traffic, above average leverage levels of 7.5x (including additional borrowing of BANS) net debt to cash flow for debt service, and robust growth and resiliency of parking revenue (accounting for 48% of total operating revenue) during the economic downturn. Credit concerns include the potential for the airport to operate closer to the rate covenant than historically done, moderate competition for Canadian passengers from other regional airports, and the narrow encatchement area resulting in a small passenger base and limited jet service. The rating also considers the potential impact the loss of air service could have on airport operations. While offering geographical diversification to its traffic base, Canadian passengers constitute a substantial portion of total throughput, about 30%, leaving the airport at risk of losing such traffic if competing Trudeau Airport should have more favorable fares. The rating also contemplates weak financial management airport controls.

RATING DRIVERS:
--Significant shift in enplanement base and carrier commitment to service area;
--Further leverage;
--Substantial shift in airport's short-term financial profile and liquidity.

SECURITY:
The bonds are special obligations of the city payable from airport net revenues. The pledge of revenues includes PFCs and industrial park revenues to be used for designated projects.

CREDIT SUMMARY:

Traffic at the airport has grown steadily over the past 10 years rising at an average rate of 4% annually, and much of this rise is attributed to JetBlue's service which has grown substantially at an average of 10% since fiscal 2002. JetBlue's share of passenger traffic at the airport amounts to 25.5% in fiscal 2010. However, the recent reconstruction of the airport's main runway in the summer of 2010 caused JetBlue to temporarily suspend one daily flight to allow for project completion. The impact of this cancellation, albeit for 3 months, together with adverse economic conditions resulted in a 57,000 drop in enplaned passengers of which approximately 21,000 are serviced by JetBlue. This 8.1% decrease in calendar 2010 (8.9% on a fiscal year basis) reduced the passenger base to 651,277 enplanements following a decline of 6.7% in calendar 2009 as a result of Airtran's pullout from the airport. The airport's enplanement level is consistent with levels seen in calendar year 2004 (2007 on a fiscal basis). Fitch views the negative impact arising from such small changes as a source of credit concern.

The main source of revenue for the airport is generated from parking operations, which accounts for 48% of total operating revenue. The airport's new parking rate has reached $12 per day after a $2 increase in September of 2010. This is expected to generate additional revenue for the airport as demand for parking remains strong. The airport expanded parking on two occasions in the past to accommodate robust demand. However, management's hesitation to revise fees to carriers had them turn to parking revenues to subsidize lower costs to airlines. Fitch views this strategy as unsustainable should higher parking tariffs curb demand for parking spaces and place more pressure on other non-airline revenue to meet financial obligations. Cost per enplanement for the past five years averaged $4.50.

Fiscal 2009 operating revenue increased 5.4% but remained flat in 2010 at $11.9 million. Management expects operations to add an additional 14.9% in operating revenue in fiscal 2011 as the effects of a full year of parking operations at $12 are reflected. Expenses increased significantly in fiscal 2009 to $10 million, 13.3% higher than the prior year. This increase is due to the additional bad debt arising from a dispute with the previous shuttle lot operator at the airport. The agreement with the operator was terminated in March 2010 and operations were assumed by the City.

The airport's financial controls have previously been cited as a weakness largely due to the timing and availability of information as well as the late release (as late as six months) of audits in fiscal 2008 and 2009. The late releases prevented management from addressing financial difficulties in a proactive fashion resulting in a rate covenant violation in two consecutive years. Management indicated that it has taken several actions to remedy the situation and budget for a 1.66x coverage for fiscal 2011. Coverage calculations include PFC revenue eligible for debt service. Should the airport operate at coverage levels closer to the rate covenant, the current rating will be pressured.

Management has also taken action in 2010 to separate airport accounts from city operations, and plans on reimbursing city borrowed funds and cash funding its debt service reserve which is currently in the form of a surety policy with MBIA. A short-term private placement ranging in size from $17 to $22 million will provide the necessary funds. Details on the issue have not been finalized yet. The airport is also planning on taking out a line of credit facility secured by AIP funds in order to better manage their capital improvement programs and not use city funds in advance of grant receipts. The airport's liquidity is weak with 87 days cash on hand (DCOH), much lower compared to 385 days in 2007 because unrestricted cash along with City funds were utilized to fund the garage expansion projects in lieu of additional debt. The airport's five-year capital program calls for $45 million in projects and will be funded with AIP grants. The airport does not foresee issuing additional debt for upcoming capital projects.

Contact:

Primary Analyst
Michael M. Murad
Associate Director
+1-212-908-0757
Fitch, Inc.

33 Whitehall Street
New York, NY 10004

Secondary Analyst
Vanessa Roy
Associate Director
+1-212-908-0508

Committee Chairperson
Michael McDermott
Managing Director
+1-212-908-1605

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Rating Criteria for Airports' (Nov. 29, 2010);
--'Rating Criteria for Infrastructure and Project Finance' (Aug. 13, 2010).

Applicable Criteria and Related Research:
Rating Criteria for Airports
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=578745
Rating Criteria for Infrastructure and Project Finance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548345